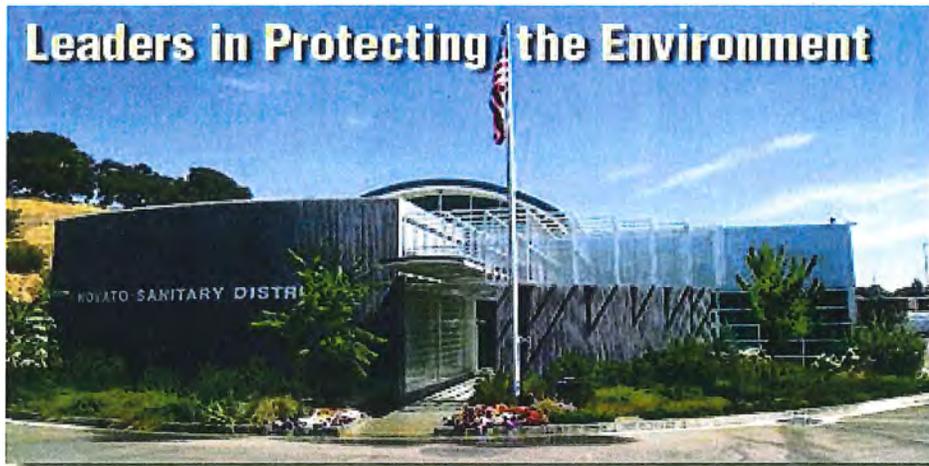




***Novato Sanitary District
Novato, CA***



Comprehensive Annual Financial Report

For the Fiscal Years Ended

June 30, 2015

and

June 30, 2014

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**NOVATO SANITARY DISTRICT, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOVATO SANITARY DISTRICT
500 Davidson Street
Novato, California 94945
(415) 892-1694 – www.novatosan.com**

Prepared by:

*Sandeep Karkal, Manager - Engineer
Laura Creamer, Finance Officer*

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NOVATO SANITARY DISTRICT
Comprehensive Annual Financial Report
For the Years Ended June 30, 2015 and 2014

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Comprehensive Annual Financial Report
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Introductory Section

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NOVATO SANITARY DISTRICT

500 DAVIDSON STREET * NOVATO * CALIFORNIA 94945 * PHONE (415) 892-1694 * FAX (415) 898-2279
www.novatosan.com

BOARD OF DIRECTORS

JEAN MARIANI, President
JERRY PETERS, President Pro-Tem
GARY BUTLER
WILLIAM C. LONG
BRANT MILLER

SANDEEP KARKAL, P.E.
General Manager-Chief Engineer

KENTON L. ALM
Legal Counsel

December 1, 2015

To: The Honorable President, Members of the Board of Directors, and Rate Payers of the Novato Sanitary District:

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Comprehensive Annual Financial Report (CAFR) of the Novato Sanitary District (District) for fiscal year ended June 30, 2015 is hereby submitted as required. Maze & Associates, a firm of licensed certified public accountants, has audited the Novato Sanitary District's financial statements.

This report is organized into four sections: (1) Introductory (2) Financial (3) Supplemental Information and (4) Statistical. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statement, and the District's audited basic financial statements with accompanying notes. The Supplemental Information section includes schedules for the purpose of additional analysis. The Statistical section presents un-audited ten-year historical financial, demographic, and statistical information pertinent to the District's operations.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the Novato Sanitary District for the fiscal year ended June 30, 2015 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Novato Sanitary District's financial statements for the fiscal year ended June 30, 2015 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

PROFILE OF THE DISTRICT

The Novato Sanitary District was formed in October 1925 pursuant to the Sanitary District Act of 1923 (California Health and Safety Code, Sections 6400 et seq). Established as an Independent Enterprise Special District, the District is authorized to provide wastewater collection and treatment services, to levy rates and fees to support those services, and to regulate collection of garbage and refuse. The District is located in northern Marin County and is approximately 25 miles north of the City and County of San Francisco.

The District has an upgraded and expanded treatment plant currently permitted for an average dry weather flow of 7.0 million gallons per day, providing wastewater service to the sewer areas of the City of Novato as well as developed areas outside the city limits. The District encompasses 24.66 square miles and serves approximately 54,000 residents. Wastewater from the District's service area is transported to the Novato Wastewater Treatment Plant where it is treated to federally and state mandated standards to protect the public health.

The District also operates a Wastewater Reclamation Facility consisting of some 820 acres of pastures in three separate sites adjacent to Highway 37. This acreage is irrigated with recycled water during the summer months for grazing cattle during 5-6 months of the year. Another unique feature of the reclamation facility is a 10-acre wildlife pond utilizing recycled water. The pond supports a variety of freshwater aquatic life and grasses, and is a preserve for birds and other forms of wildlife. A third feature of the reclamation facility is the 6 acres of treated biosolids storage ponds and 15 acres of dedicated disposal site.

In cooperation with the North Marin Water District, up to 1.7 million gallons per day of Title 22 recycled water can be produced for use for landscape irrigation in Northern and Eastern Novato.

In addition, the District operates a Household Hazardous Waste program and is responsible for refuse, recycling and green-waste collection through its oversight of a franchise.

Governance

The affairs of the District are directed by a five member Board of Directors elected at large by the registered voters residing in the District. The directors are residents of the District and have the same concerns as their constituents. The Board members, who serve four-year staggered terms, are responsible for establishing policy and ordinances, adopting the annual budget, and hiring the District's General Manager-Chief Engineer. The General Manager-Chief Engineer is responsible for carrying out the policies and ordinances of the District Board and for overseeing the day-to-day operations of the District.

Mission and Vision

The mission of the Novato Sanitary District is as follows:

Novato Sanitary District provides responsible environmental and economical wastewater and solid waste resource management for Novato.

The District's long-term vision is as follows:

Creating worth from all of Novato's waste.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Novato Sanitary District operates.

Local Economy

The District has a predominantly residential ratepayer base, with residential users accounting for 75% of equivalent dwelling units. The local economy also includes some 2,500 commercial businesses. No major industrial wastewater producers exist within the District's service area. In general, the District's service area is significantly built out with densification anticipated in the downtown area and commercial corridors. Future growth areas are generally zoned very low density residential, although this is always subject to change by the planning agencies i.e. City of Novato and County of Marin.

As an independent enterprise special district having the ability to adjust service rates as required, the District's operating revenues are somewhat insulated from the local economy. The District's operating revenues tend to increase with growth periods and stabilize during non-growth periods. Conceivably, the greatest threat to operating revenues would be from a significant reduction in the service area population. As the District reaches build out, it is anticipated that growth in District revenues will remain stable.

Capacity fees are collected as new units are connected to the District. During the housing boom of the early 2000's the District experienced strong revenues from capacity fees. It is anticipated that capacity fee revenues will slow dramatically as the District approaches build out, absent significant densification or zoning changes.

Property taxes accounted for approximately 12.9% and 10.4% of the District's total revenue for FYE 2014 and 2015, respectively. Under current conditions in the housing market, property tax revenues are not expected to increase at significant rates and may remain flat or increase moderately in the near future with increases in values and reassessments.

Long-Term Financial Planning

The District's Board of Directors is aware of the need to ensure the District's financial stability. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The District's 2011 Comprehensive Financial Plan has guided the District's expenditures and revenue needs through the 2015-16 fiscal year. The District utilizes this information to anticipate future expense obligations and to develop programs to ensure these expense obligations are fully funded. It is anticipated that this Financial Plan will be updated, or a new Plan will be developed, as appropriate.

RELEVANT FINANCIAL POLICIES

Reserve Policy

The District has established a Reserve Policy to anticipate and prepare for unforeseen events, and to establish and maintain the required reserves of its State Revolving Fund loan and 2011 Certificates of Participation. The District has also established Capital and Operating Fund targets as of July 1st each year in order to provide sufficient cash flow for expenses in that fiscal year.

Investment Policy

The District's Investment Policy establishes guidelines for the investment of available funds. The Investment Policy incorporates the "prudent investor" standard as stated in California Government Code (CGC) Section 53600.3. The primary objectives, in priority order, of the District's investment activities are the following: 1) safety, 2) liquidity, and 3) yield. The District's funds are invested in the State Local Agency Investment Fund, in accordance with California Government Code, as described in Footnote 2 of the Basic Financial Statements.

INTERNAL CONTROLS

The District is responsible for establishing and maintaining an internal control structure designed to ensure that the District's assets are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled for the preparation of financial statements in conformity with GAAP. The internal structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that; 1) the cost of control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

MAJOR INITIATIVES

The District has initiated several major projects to upgrade infrastructure and ensure the adequacy of facilities.

- 1) The District recently completed a major upgrade to its wastewater treatment facilities. Financed by a California State Revolving Fund loan the District upgraded and expanded its Novato Treatment Plant to treat the combined flow of two wastewater treatment plants. The new treatment plant replaces two aging facilities with a single new modernized plant. A major new pump station and pipeline replaced an aging and obsolete plant. Improvements include efficient treatment processes that comply with all current standards, re-use of the portions of the plant built since the 1980's that are still usable, and addition of backup facilities in case of equipment failure or emergencies. Debt service payments will be paid semi-annually through 2031 at an interest rate of 2.40%.
- 2) A Collection System Improvement and Pump Station Rehabilitation Program is underway to replace aging sewer lines and pump stations that are reaching the end of their useful lives. The program is designed to meet the District's needs for the next 25 to 50 years. Construction is ongoing and is expected to continue for the foreseeable future.
- 3) The District initiated a Sewer System Plan more than a decade ago. Since then much progress has been made. With about 260 miles of sewer pipelines, over 6,000 manholes, plus other critical facilities, many of which are 50 or 60 years old, there is more work to do. The District has been investing up to \$5 million each year in sewer upgrades to repair the wear and tear from past decades.
- 4) Due to the success of the District's Lateral Replacement Program over the past year, the program will continue to provide incentives for ratepayers to repair their private laterals. The program reimburses ratepayers up to \$1,500 for complete lateral replacement. During the fiscal year 2015 the District contributed \$18,950 for the replacement of thirteen damaged private laterals.
- 5) The District completed construction of the 1.7 million gallons per day(MGD), 0.85 MGD firm capacity, Recycled Water Treatment Facility in September 2012. The project is part of a regional recycled water program – North Bay Water Reuse Authority. Twenty-five percent of the cost was covered by a grant from the U.S. Bureau of Reclamation. Five percent was covered by a grant from the California Department of Water Resources. The recycled water is distributed by North Marin Water District to irrigate a golf course, landscaping, cemeteries, and playing fields in Northern and Eastern Novato. The Facility became operational in September 2012.

COLLABORATIVE PARTNERSHIPS

The District's success in providing low-cost, high-quality service is due in part to its strategy of forming successful collaborative partnerships with a number of different entities:

Zero Waste Program. In addition to franchising garbage collection and disposal with Novato Disposal Service (NDS), the District is responsible for meeting mandates of AB 939, the California Integrated Waste Management Act of 1989. In addition, the District and NDS collaboratively developed a Zero Waste Program which is anticipated to take recycling in the District's service area to the next level by dramatically reducing what goes to the landfill, without a rate increase beyond inflation.

Specialized Staff Sharing. The District shares a single full-time safety officer with the Central Marin Sanitation Agency. The District and North Marin Water District also have a Mutual Aid Agreement to share highly skilled laboratory staff.

Cost-Saving Management of Treatment Plant. The District contracts with a private entity, Veolia Water, to operate its recently upgraded treatment facilities, achieving both cost savings and environmental compliance.

Millions in Funding from Collaborative Recycled Water Program. By working collaboratively with North Marin Water District and other neighboring and regional agencies, the District has helped obtain over \$2.6 million in federal and state grant funding to expand recycled water use in Novato.

INDEPENDENT AUDIT

The Government Code requires an annual audit of the District's financial records by a Certified Public Accountant. The District selected, through a competitive process, the firm of Maze & Associates to conduct the audit. The auditor's report on the financial statements and schedules are included in the financial section of this report.

ACKNOWLEDGEMENTS

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. A special note of appreciation goes to Laura Creamer, CPA, the District's Finance Officer, for her assistance with developing this report. We would also like to recognize and thank the members of the District's Finance Committee, Gerald Peters and William Long, and the District's Board of Directors, for their continued support in the planning and implementation of the District's fiscal policies.

Respectfully submitted,



Sandeep Karkal
General Manager-Chief Engineer

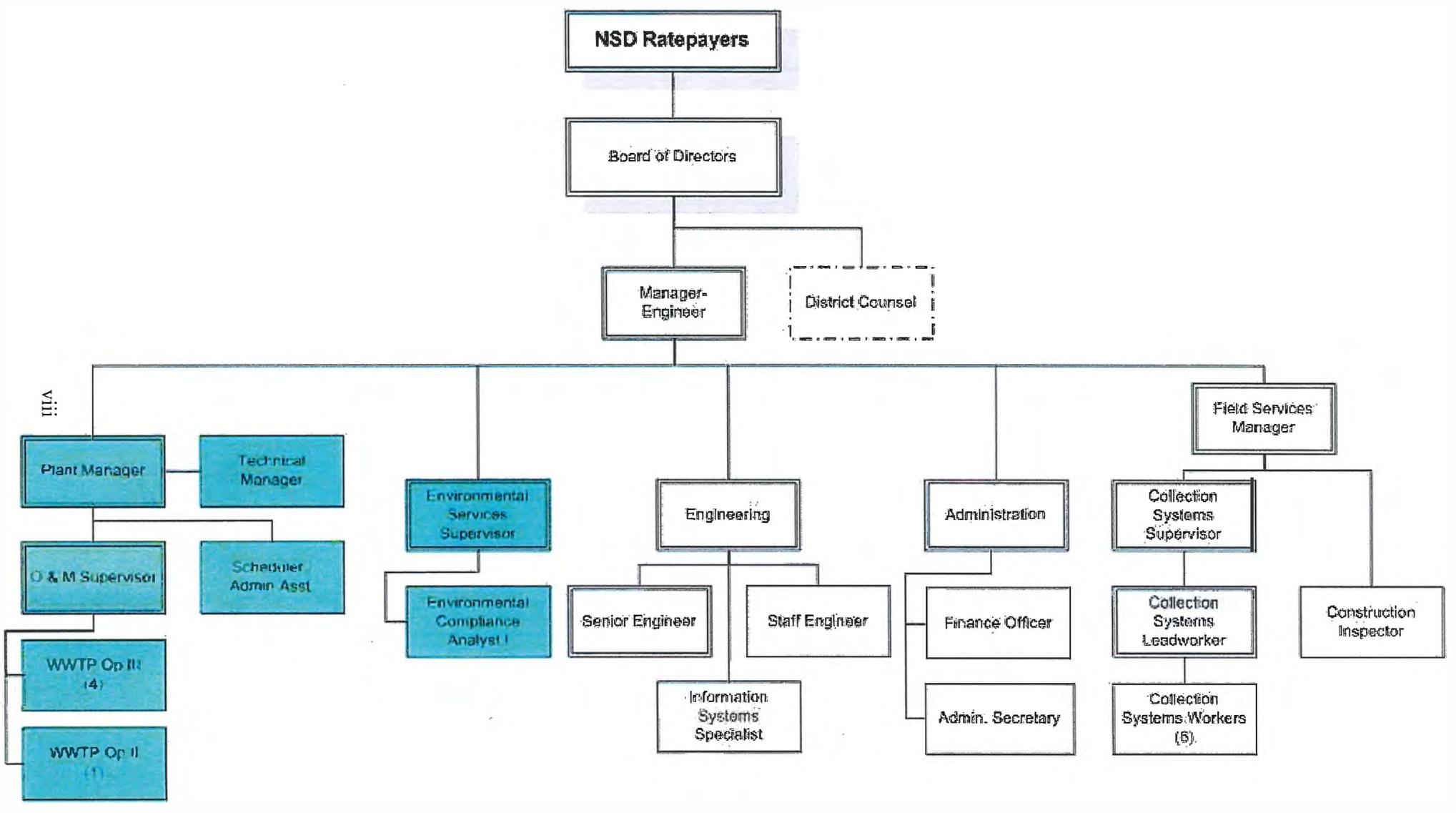
Leaders in Protecting the Environment

Novato Sanitary District provides wastewater collection, treatment, recycling and disposal services for the community of Novato, California. In addition, the District is responsible for refuse disposal, recycling, and greenwaste collection through its franchise collector, Novato Disposal Service.

Novato Sanitary District Board of Directors as of June 30, 2015

Name	Title	Elected/ Appointed	First Seated on Board	Current Term
Jean Mariani	President	Elected	5/2011	12/11-12/15
William C. Long	Director	Elected	12/2001	12/13-12/17
Gerald Peters	Director	Elected	12/2011	12/11-12/15
Gary Butler	Director	Appointed	5/2014	05/14-12/15
Brant Miller	Director	Elected	12/2013	12/13-12/17

Sandeep Karkal, Manager - Engineer
500 Davidson Street
Novato, California 94945
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Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Novato Sanitary District
Novato, California

Report on Financial Statements

We have audited the accompanying basic financial statements of the Novato Sanitary District (District), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2015 and 2014, and changes in the financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 and required a prior period adjustment of net position as discussed in Note 10 to the financial statements:

Statement No. 68 – *Accounting and Financial Reporting for Pensions*

Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*

The emphasis of this matter does not constitute a modification to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and other Required Supplementary Information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Introductory Section and Statistical Section listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Maze & Associates

Pleasant Hill, California
November 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Novato Sanitary District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2015 and 2014. The two-year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2015, the District's assets decreased .7% or \$1,569,985 to \$203,427,403. In 2014, the District's assets decreased 2.5% or \$5,308,920 to \$204,997,388.
- In 2015, the District's net position decreased .9% or \$984,702 to \$105,599,405. In 2014, the District's net position decreased 1.2% or \$1,339,359 to \$106,584,607.
- In 2015, the District's operating revenues increased 3.6% or \$523,221 due to a rate increase of approximately 3.6% (approved in June of 2012). In 2014, the District's operating revenues increased 3.3% or \$507,570.
- In 2015, The District's other non-operating expenses decreased 58% or \$3,747,306 due to the prior year retirement of pump station buildings and equipment. In 2014, the District's other non-operating expenses increased 111% or \$3,396,869.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions that can be asked about the District's finances is: "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the District that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes therein. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one also needs to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State wastewater standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 41.

Condensed Statements of Net Position

	2015	2014	Change	2013-Restated	Change
Assets:					
Current assets	\$ 20,225,134	20,783,974	(558,840)	23,453,892	(2,669,918)
Capital assets, net	182,916,368	184,213,414	(1,297,046)	186,852,416	(2,639,002)
Deferred Outflow of Resources (Note 10)	285,901		285,901	-	-
Total assets	203,427,403	204,997,388	(1,569,985)	210,306,308	(5,308,920)
Liabilities:					
Current liabilities	6,757,802	7,172,441	(414,639)	6,856,759	315,682
Non-current liabilities	90,164,596	91,240,840	(1,076,244)	95,526,083	(4,285,243)
Deferred Inflows of Resources (Note 10)	905,600		905,600	-	-
Total liabilities	97,827,998	98,413,281	(585,283)	102,382,842	(3,969,561)
Net Position as restated (Note 8)					
Net investment in capital assets	94,572,835	94,531,379	41,456	97,636,900	(3,105,521)
Unrestricted	11,026,570	12,052,728	(1,026,158)	10,286,566	1,766,162
Total net position	105,599,405	106,584,107	(984,702)	107,923,466	(1,339,359)
Total liabilities and net position	\$ 203,427,403	204,997,388	(1,569,985)	210,306,308	(5,308,920)

As noted earlier, net position may serve over time as a useful indicator of a government entity's financial position. In the case of the District, assets of the District exceeded liabilities by \$105,599,405 and \$106,584,107 as of June 30, 2015 and June 30, 2014, respectively.

By far the largest portion of the District's net position (90% as of June 30, 2015 and 2014) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2015 and 2014, the District showed a positive balance in its unrestricted net position of \$11,026,570 and \$12,052,728 respectively, which may be utilized in future years. See Note 8 for further discussion.

Statement of Revenues, Expenses and Changes in Net Position

	2015	2014	Change	2013-Restated	Change
Revenues:					
Operating revenues	\$ 16,372,320	15,849,099	523,221	15,341,529	507,570
Non-operating revenues	2,198,894	2,114,622	84,272	1,980,806	133,816
Total revenues	18,571,214	17,963,721	607,493	17,322,335	641,386
Expenses:					
Operating expenses	7,894,306	8,322,651	(428,345)	8,103,790	218,861
Depreciation and amortization	5,201,451	5,092,355	109,096	4,602,353	490,002
Non-operating expenses	2,703,321	6,450,627	(3,747,306)	3,053,758	3,396,869
Total expenses	15,799,078	19,865,633	(4,066,555)	15,759,901	4,105,732
Net income before capital contributions	2,772,136	(1,901,912)	4,674,048	1,562,434	(3,464,346)
Capital contributions	542,290	562,553	(20,263)	146,949	415,604
Change in net position	3,314,426	(1,339,359)	4,653,785	1,709,383	(3,048,742)
Net position, beginning of year	106,584,107	107,923,466	(1,339,359)	112,988,251	(5,064,785)
Prior period adjustment(Note 10)	(4,299,128)		(4,299,128)	(6,774,168)	6,774,168
Net position, end of year	\$ 105,599,405	106,584,107	(984,702)	107,923,466	(1,339,359)

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position decreased by \$984,702 and \$1,339,359 for the fiscal years ended June 30, 2015 and 2014, respectively. A closer examination of the sources of changes in net position reveals that:

- In 2015, the District's sewer service charges increased 3.6% or \$548,801 primarily due to the rate increase of approximately 3.6%. This rate increase was part of a four-year series of rate increases approved in June 2012.
- In 2015, the District's net position decreased by \$4,299,128 to account for the District's unfunded pension liability with the June 15, 2014 implementation of Government Accounting Standards Board Statement 68 (GASB 68).
- In 2015, the District's non-operating expenditures decreased by \$3,747,306 from retiring pump station equipment and buildings in the prior year.

Operating and Non-Operating Revenues

	2015	2014	Change	2013-Restated	Change
Operating revenues:					
Sewer service charges	\$ 15,706,704	15,157,903	548,801	14,670,826	487,077
Other service charges	231,594	254,797	(23,203)	305,154	(50,357)
Permit, inspection and other fees	44,494	39,023	5,471	34,505	4,518
Recycled water facility	91,942	99,790	(7,848)	33,458	66,332
AB939 – solid waste programs	297,586	297,586	-	297,586	-
Total operating revenues	16,372,320	15,849,099	523,221	15,341,529	507,570
Non-operating revenue:					
Property taxes	1,999,816	1,941,241	58,575	1,795,781	145,460
Franchise fees	49,768	51,019	(1,251)	46,170	4,849
Rental revenue	92,829	76,689	16,140	67,246	9,443
Interest earnings	43,117	45,673	(2,556)	67,050	(21,377)
Gain on sale/disposition of assets	13,364	-	13,364	2,529	(2,529)
Other non-operating revenues	-	-	-	2,030	(2,030)
Total non-operating revenues	2,198,894	2,114,622	84,272	1,980,806	133,816
Total revenues	\$ 18,571,214	17,963,721	607,493	17,322,335	641,386

Total revenues increased by \$607,493 and \$641,386 in fiscal years 2015 and 2014, respectively.

Operating and Non-Operating Expenses

	2015	2014	Change	2013-Restated	Change
Operating expenses:					
Collection system	\$ 1,277,022	1,188,408	88,614	1,022,006	166,402
Treatment plant	2,757,514	2,562,314	195,200	2,561,301	1,013
Wastewater reclamation and disposal	398,118	418,748	(20,630)	423,670	(4,922)
Laboratory and monitoring	555,215	534,959	20,256	572,718	(37,759)
Sewers and pump stations	686,789	668,841	17,948	668,427	414
Recycled water facility	100,354	104,837	(4,483)	31,301	73,536
AB939 – solid waste programs	289,586	320,938	(31,352)	318,616	2,322
Administrative and engineering	2,173,241	2,523,606	(350,365)	2,505,751	17,855
Pension Expense	(343,533)	-	(343,533)	-	-
Total operating expenses	7,894,306	8,322,651	(428,345)	8,103,790	218,861
Depreciation and amortization exp.	5,201,451	5,092,355	109,096	4,602,353	490,002
Non-operating expenses:					
Interest expense	2,567,765	2,678,227	(110,462)	2,712,097	(33,870)
Deferred charges amortization	-	-	-	-	-
Loss on sale/disposition of assets	-	3,502,140	(3,502,140)	-	3,502,140
Other non-operating expenses	135,556	270,260	(134,704)	341,661	(71,401)
Total non-operating expenses	2,703,321	6,450,627	(3,747,306)	3,053,758	3,396,869
Total expenses	\$ 15,799,078	19,865,633	(4,066,555)	15,759,901	4,105,732

Total expenses decreased by \$4,066,555 and increased by \$4,105,732 in fiscal years 2015 and 2014, respectively, primarily from a loss on sale/disposition of assets of \$3,502,140 (from retirement of pump station buildings and equipment), recognized in FYE 2014.

Capital Asset Administration

Changes in capital assets amounts for 2015 were as follows:					
	Balance		Transfers/	Reclassifications	Balance
	2014	Additions	Deletions	and Restatement	2015
Capital assets:					
Non-depreciable assets	\$ 10,159,610	2,331,010	(975,774)		11,514,846
Depreciable assets	229,640,917	2,554,893	(148,330)		232,047,480
Accumulated depreciation	(55,587,113)	(5,201,451)	142,606		(60,645,958)
Total capital assets ,net	\$ 184,213,414	(315,548)	(981,498)	-	182,916,368
Changes in capital assets amounts for 2014 were as follows:					
	Balance		Transfers/	Reclassifications	Balance
	2013 as restated	Additions	Deletions	and Restatement	2014
Capital assets:					
Non-depreciable assets	\$ 8,362,618	4,285,520	(2,488,528)		10,159,610
Depreciable assets	229,870,767	1,733,721	(1,963,571)		229,640,917
Accumulated depreciation	(51,380,969)	(5,092,355)	886,211		(55,587,113)
Total capital assets ,net	\$ 186,852,416	926,886	(3,565,888)	-	184,213,414

At the end of fiscal year 2015 and 2014, the District's investment in capital assets amounted to \$182,916,368 and \$184,213,414 (net of accumulated depreciation), respectively. This investment in capital assets includes land, land improvements, sewer collection and outfall system, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital asset additions during the year include improvements to portions of the District's sewer collection and treatment system and pump stations (see Note 4 for further details).

Debt Administration

Changes in long-term debt amounts for 2015 were as follows:					
	Balance 2014	Additions	Deletions	Balance 2015	
Loan payable	74,366,047	-	(3,594,171)	70,771,876	
2011 Certificates Of Participation	20,120,000	-	(855,000)	19,265,000	
Total long-term debt	\$ 94,486,047	-	(4,449,171)	90,036,876	
Changes in long-term debt amounts for 2014 were as follows:					
	Balance 2013	Additions	Deletions	Balance 2014	
Long-term debt:					
Loan payable	\$ 77,875,980	-	(3,509,933)	74,366,047	
2011 Certificates Of Participation	20,950,000	-	(830,000)	20,120,000	
Total long-term debt	\$ 98,825,980	-	(4,339,933)	94,486,047	

See Note 6 for further details of the District's long-term debt.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position, or operating results based on past, present and future anticipated events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager-Chief Engineer, or the District's Finance Officer, at 500 Davidson Street, Novato, California, 94945.

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Basic Financial Statements

NOVATO SANITARY DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$18,102,303	\$15,612,749
Restricted - cash and investments (Note 2)	1,693,343	4,804,012
Accounts receivable, net (Note 3)	373,490	300,683
Accrued interest receivable	3,702	11,352
Prepaid expenses and other deposits	52,296	55,178
	<u>20,225,134</u>	<u>20,783,974</u>
NON-CURRENT ASSETS		
Capital assets - not being depreciated (Note 4)	11,514,846	10,159,610
Capital assets - being depreciated, net (Note 4)	171,401,522	174,053,804
	<u>182,916,368</u>	<u>184,213,414</u>
	<u>203,141,502</u>	<u>204,997,388</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related (Note 10)	285,901	
	<u>285,901</u>	
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	749,097	1,235,959
Customer deposits and unearned revenue	43,006	43,006
Restricted - special assessment payable	179,541	163,271
Accrued interest payable	1,187,241	1,241,058
Long-term liabilities - due within one year:		
Compensated absences (Note 5)	33,486	39,976
State Revolving Fund Loan payable (Note 6)	3,680,431	3,594,171
Certificates of Participation (Note 6)	885,000	855,000
	<u>6,757,802</u>	<u>7,172,441</u>
NON-CURRENT LIABILITIES		
Long-term liabilities - due in more than one year:		
Compensated absences (Note 5)	100,459	119,928
State Revolving Fund Loan payable (Note 6)	67,091,445	70,771,876
Certificates of Participation (Note 6)	18,380,000	19,265,000
Other post-employment benefits payable (Note 7)	1,256,796	1,084,036
Collective net pension liability (Note 10)	3,335,896	
	<u>90,164,596</u>	<u>91,240,840</u>
	<u>96,922,398</u>	<u>98,413,281</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related (Note 10)	905,600	
	<u>905,600</u>	
NET POSITION (Note 8)		
Net investment in capital assets	94,572,835	94,531,379
Unrestricted	11,026,570	12,052,728
	<u>\$105,599,405</u>	<u>\$106,584,107</u>

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Sewer service charges	\$15,706,704	\$15,157,903
Other service charges	231,594	254,797
Permit, inspection and other fees	44,494	39,023
Recycled water facility	91,942	99,790
AB939 - solid waste programs	297,586	297,586
Total operating revenues	16,372,320	15,849,099
OPERATING EXPENSES		
Collection system	1,277,022	1,188,408
Treatment plant	2,757,514	2,562,314
Reclamation and disposal	398,118	418,748
Laboratory and monitoring	555,215	534,959
Pump stations	686,789	668,841
AB939 - solid waste programs	289,586	320,938
Recycled water	100,354	104,837
Administrative and engineering	2,173,241	2,523,606
Pension expense	(343,533)	
Total operating expenses	7,894,306	8,322,651
Operating income before depreciation	8,478,014	7,526,448
Depreciation (Note 4)	(5,201,451)	(5,092,355)
OPERATING INCOME	3,276,563	2,434,093
NONOPERATING REVENUES (EXPENSES)		
Property taxes	1,999,816	1,941,241
Franchise fees	49,768	51,019
Rental revenue	92,829	76,689
Interest income	43,117	45,673
Interest expense	(2,567,765)	(2,678,227)
Gain (loss) on sale/disposition of capital assets	13,364	(3,502,140)
Other non-operating expenses	(135,556)	(270,260)
Total nonoperating revenues (expenses), net	(504,427)	(4,336,005)
Net income (loss) before capital contributions	2,772,136	(1,901,912)
CAPITAL CONTRIBUTIONS		
Connection fees	291,565	343,773
Capital contributions	250,725	202,530
Capital grants		16,250
Total capital contributions	542,290	562,553
CHANGES IN NET POSITION	3,314,426	(1,339,359)
NET POSITION, BEGINNING OF YEAR	106,584,107	107,923,466
Prior period adjustment due to implementation of GASB 68 & 71 (Note 10)	(4,299,128)	
NET POSITION, END OF YEAR	\$105,599,405	\$106,584,107

See accompanying notes to financial statements

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers for sewer service charges and services	\$16,442,110	\$16,220,668
Cash paid to or on behalf of employees for salaries, wages and benefits	(2,351,260)	(1,980,190)
Cash paid to vendors and suppliers for materials and services	(6,343,044)	(6,191,452)
Cash Flows from Operating Activities	7,747,806	8,049,026
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	1,999,816	1,941,241
Cash Flows from Noncapital Financing Activities	1,999,816	1,941,241
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(3,659,404)	(5,816,711)
Proceeds from sale of capital assets	19,088	63,748
Capital contributions	291,565	360,023
Principal payments on long-term debt	(4,449,171)	(4,339,933)
Interest payments on long-term debt	(2,621,582)	(2,730,721)
Cash Flows (used for) Capital and Related Financing Activities	(10,419,504)	(12,463,594)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings	50,767	47,722
Cash Flows from Investing Activities	50,767	47,722
NET CASH FLOWS	(621,115)	(2,425,605)
Cash, beginning of year	20,416,761	22,842,366
Cash, end of year	\$19,795,646	\$20,416,761
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents	\$18,102,303	\$15,612,749
Restricted - cash and cash equivalents	1,693,343	4,804,012
Total cash and cash equivalents	\$19,795,646	\$20,416,761

(Continued)

NOVATO SANITARY DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$3,276,563</u>	<u>\$2,434,093</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,201,451	5,092,355
Other non-operating revenues	142,597	127,708
Other non-operating expenses	(135,556)	(270,260)
Change in assets and liabilities:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable - sewer services	(72,807)	243,861
Prepaid expenses and other deposits	2,882	(1,597)
Pension related deferred outflows of resources	(285,901)	
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(486,862)	257,010
Customer deposits and deferred revenue		5,000
Restricted - special assessment payable	16,270	(2,806)
Compensated absences	(25,959)	(1,063)
Other post-employment benefits payable	172,760	164,725
Collective net pension liability	(963,232)	
Pension related deferred inflows of resources	<u>905,600</u>	
Total adjustments	<u>4,471,243</u>	<u>5,614,933</u>
Net cash provided by operating activities	<u><u>\$7,747,806</u></u>	<u><u>\$8,049,026</u></u>
Schedule of Non-Cash Investing and Financing Activities:		
Change in fair value of investments		\$4,602
Capital contributions	\$250,725	202,530

See accompanying notes to financial statements

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NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Organization and Operations of the Reporting Entity*

The Novato Sanitary District (District) is a separate governmental unit established as a Special District of the State of California, created in 1925. The District provides sewage collection, treatment, reclamation, and disposal services to an area of about 25 square miles in and around the City of Novato in Marin County, California. Revenues are derived principally from sewer service charges collected from commercial and residential customers within the District's service area. The District is governed by a five-member Board of Directors who serve four year terms.

B. *Basis of Accounting and Measurement Focus*

Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing wastewater service, treatment and collection to its service area on a continuing basis be financed or recovered primarily through user charges (sewer service charges), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as sewer service charges as well as treatment and collection charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. *Use of Estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

D. *Cash and Cash Equivalents*

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. *Investments*

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

F. *Accounts Receivable and Allowance for Uncollectible Accounts*

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

G. *Property Taxes and Sewer Assessments*

The Marin County Assessor's Office assesses all real and personal property within the County each year. The Marin County Tax Collector's Office bills and collects the District's share of property taxes and assessments. The Marin County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

H. *Prepaid Expenses*

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

I. *Capital Assets*

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Contributed assets are recorded at estimated fair market value at the date of donation and/or historical cost. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Sewer system improvements - 15 years
- Sewer collection and outfall system - 50 to 100 years
- Buildings and structures - 15 to 50 years
- Sewer facilities equipment - 5 to 35 years
- Equipment - 5 to 35 years

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. *Compensated Absences*

The District's policy is to permit employees to accumulate earned vacation up to a total of 240 hours during their first 15 years of service and 320 hours after 15 years of service. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time unless the employee retires from the District in which case unused sick leave is counted 100% towards CalPERS service credits.

K. *Sewer Service Charges*

The majority of sewer service charges are billed annually on the County of Marin's property tax bills.

L. *Capital Contributions*

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or connection to the District's system.

M. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

N. *Net Position*

The financial statements utilize a net position presentation. Net positions are categorized as follows:

- **Net Investment in Capital Assets** - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** - This component of net position consists of net position that do not meet the definition of *restricted* or *net investment in capital assets*.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 68 – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, therefore, the District implemented this Statement in fiscal year ending June 30, 2015, which required an adjustment to reduce the District’s beginning net position by \$4,299,128. The financial statements for fiscal year ended June 30, 2014 could not be restated as the information required to do so was not readily available. See Note 10 for additional information.

GASB Statement No. 69 – In 2014, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operation*. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013, therefore, the District will implement this Statement in fiscal year ending June 30, 2015. This Statement did not have any impact on the financial statements.

GASB Statement No. 70 – In 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Finance Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more than likely than not the government will be required to make a payment on that guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013, therefore, the District implemented this statement for fiscal year ended June 30, 2015, and had no impact on the financial statements.

GASB Statement No. 71 – In 2014, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, therefore, the District implemented this Statement in fiscal year ending June 30, 2015, along with GASB 68 as discussed above.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 2 – CASH AND INVESTMENTS

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

	2015	2014
Cash and cash equivalents	\$18,102,303	\$15,612,749
Restricted cash and investments	1,693,343	4,804,012
Total Cash and Investments	\$19,795,646	\$20,416,761

Cash and cash equivalents as of June 30, consist of the following:

	2015	2014
<i>Held by District:</i>		
Cash on hand	\$472	\$828
Deposits with financial institutions	42,513	206,637
Local Agency Investment Fund	18,059,318	15,405,284
<i>Held by Fiscal Agent:</i>		
Deposits with financial institutions	1,693,343	1,697,906
Local Agency Investment Fund	3,106,106	3,106,106
Total Cash and Investments	\$19,795,646	\$20,416,761

A. Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
State and Local Agency Bonds, Notes and Registered State bonds, Notes and Warrants	5 years		100%	None
U.S. Treasury Obligations	5 years		100%	None
Federal Agency Securities	5 years		100%	None
Banker's Acceptances	270 days		40%	30%
Prime Commercial Paper	180 days	A-1	25%	10%
Negotiable Certificates of Deposit	5 years	AA	30%	None
Repurchase Agreements	1 year		100%	None
Reverse Repurchase Agreements	92/30		20% of base	None
Medium-term Notes	5 years	AA	30%	None
Money Market Mutual Funds	N/A		15%	10%
Mortgage Pass-through Securities	N/A		30%	None
California Local Agency Investment Fund	N/A		\$40 million per account	None
Passbook Savings Account Demand Deposits	N/A		100%	None

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. *Investments Authorized by the District's Debt Issues*

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions related to maturities and credit ratings, where applicable, of these investments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality (per S&P)</u>
Federal Securities		
U.S. Agency Securities		A
Interest Bearing Deposit Accounts, including Certificates of Deposit		A or fully insured by the FDIC
Commercial Paper	180 days	Highest Short-Term Rating
Federal Funds or Bankers' Acceptances	1 year	Highest Rating Category
Money Market Funds		AAAm-G, AAAm or Aam
Obligations the interest on which is excludable from gross income pursuant to IRS Tax Code Section 103		A
Obligations issued by any corporation organized and operating within the U.S. with assets		A
Municipal Bonds or Notes		Two Highest Categories
Guaranteed Investment Agreements (LAIF)		A

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 at June 30, 2015 and 2014 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2015 and 2014, these investments matured in an average of 239 and 232 days, respectively.

**NOVATO SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the Years Ended June 30, 2015 and 2014**

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2015 and 2014, the Local Agency Investment Fund was not rated.

F. Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer that represent 5% or more of total District's investments at June 30, 2015 and 2014, respectively.

NOTE 3 – ACCOUNTS RECEIVABLE

The District's accounts receivable at June 30, was as follows:

Description	2015	2014
Sewer services	\$136,598	\$135,097
Franchise/Lease	125,005	104,369
Property tax	11,411	13,295
Recycling	44,374	33,772
Other, net of allowance	56,102	14,150
	<u>\$373,490</u>	<u>\$300,683</u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 4 – CAPITAL ASSETS

A. Capital Assets Activity

Changes in capital assets for the current fiscal year were as follows:

	<u>Balance June 30, 2014</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2015</u>
Non-depreciable assets:				
Land and land rights	\$2,773,507			\$2,773,507
Easements	2,169,875			2,169,875
Construction-in-process	5,216,228	\$2,331,010	(\$975,774)	6,571,464
Total non-depreciable assets	<u>10,159,610</u>	<u>2,331,010</u>	<u>(975,774)</u>	<u>11,514,846</u>
Depreciable assets:				
Sewer system improvements	171,012,558	1,536,943		172,549,501
Sewer collection and outfall system	48,905,133	558,429		49,463,562
Sewer facilities equipment	8,117,280	267,803	(80,568)	8,304,515
Equipment	1,605,946	191,718	(67,762)	1,729,902
Total depreciable assets	<u>229,640,917</u>	<u>2,554,893</u>	<u>(148,330)</u>	<u>232,047,480</u>
Accumulated depreciation:				
Sewer system improvements	(35,631,996)	(4,134,970)		(39,766,966)
Sewer collection and outfall system	(14,164,014)	(559,538)		(14,723,552)
Sewer facilities equipment	(4,889,327)	(414,838)	76,646	(5,227,519)
Equipment	(901,776)	(92,105)	65,960	(927,921)
Total accumulated depreciation	<u>(55,587,113)</u>	<u>(5,201,451)</u>	<u>142,606</u>	<u>(60,645,958)</u>
Total depreciable assets, net	<u>174,053,804</u>	<u>(2,646,558)</u>	<u>(5,724)</u>	<u>171,401,522</u>
Total capital assets, net	<u><u>\$184,213,414</u></u>	<u><u>(\$315,548)</u></u>	<u><u>(\$981,498)</u></u>	<u><u>\$182,916,368</u></u>

Major capital assets additions during the year include improvements to portions of the District's sewer collection and treatment system and pump stations.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 4 – CAPITAL ASSETS (Continued)

Changes in capital assets for the prior fiscal year were as follows:

	Balance June 30, 2013	Additions	Deletions/ Transfers	Reclassifications	Balance June 30, 2014
Non-depreciable assets:					
Land and land rights	\$2,773,507				\$2,773,507
Easements	2,118,095	\$51,780			2,169,875
Construction-in-process	3,471,016	4,233,740	(\$2,488,528)		5,216,228
Total non-depreciable assets	<u>8,362,618</u>	<u>4,285,520</u>	<u>(2,488,528)</u>		<u>10,159,610</u>
Depreciable assets:					
Sewer system improvements	173,897,528	1,154,737	(2,853,534)	(\$1,186,173)	171,012,558
Sewer collection and outfall system	46,908,353	322,094	1,674,686		48,905,133
Sewer facilities equipment	7,290,422	224,568	(583,883)	1,186,173	8,117,280
Equipment	1,774,464	32,322	(200,840)		1,605,946
Total depreciable assets	<u>229,870,767</u>	<u>1,733,721</u>	<u>(1,963,571)</u>		<u>229,640,917</u>
Accumulated depreciation:					
Sewer system improvements	(31,620,083)	(4,286,818)	274,905		(35,631,996)
Sewer collection and outfall system	(13,644,771)	(519,243)			(14,164,014)
Sewer facilities equipment	(5,174,029)	(199,989)	484,691		(4,889,327)
Equipment	(942,086)	(86,305)	126,615		(901,776)
Total accumulated depreciation	<u>(51,380,969)</u>	<u>(5,092,355)</u>	<u>886,211</u>		<u>(55,587,113)</u>
Total depreciable assets, net	<u>178,489,798</u>	<u>(3,358,634)</u>	<u>(1,077,360)</u>		<u>174,053,804</u>
Total capital assets, net	<u><u>\$186,852,416</u></u>	<u><u>\$926,886</u></u>	<u><u>(\$3,565,888)</u></u>		<u><u>\$184,213,414</u></u>

Major capital assets additions during the year include construction of the District's new recycled water facility and other buildings, structures and improvements.

B. Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset.

Construction-in-process consists of the following projects as of June 30:

Projects	2015	2014	2013
Wastewater treatment plant upgrade	\$4,332,365	\$3,834,595	\$879,643
Collection system improvements	1,497,782	132,920	1,747,180
Pump station rehabilitation	56,979	941,953	785,526
North Bay Water Reuse Authority	435,945	104,650	
Hamilton Wetlands Outfall Monitoring	68,254	52,954	
Novato Creek Watershed	100,000		
Administrative building updates	54,622		
Various other minor projects <\$50,000	25,517	149,156	58,667
Total	<u><u>\$6,571,464</u></u>	<u><u>\$5,216,228</u></u>	<u><u>\$3,471,016</u></u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 5 – COMPENSATED ABSENCES

The changes to compensated absences balances at June 30, were as follows:

<u>Balance 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2015</u>	<u>Due Within One Year</u>
\$159,904	\$17,323	(\$43,282)	\$133,945	\$33,486
<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2014</u>	<u>Due Within One Year</u>
\$160,967	\$17,562	(\$18,625)	\$159,904	\$39,976

NOTE 6 – LONG-TERM DEBT

A. Long-Term Debt Activity

Changes in long-term debt amounts for 2014-2015 were as follows:

	<u>Balance June 30, 2014</u>	<u>Retirements</u>	<u>Balance June 30, 2015</u>	<u>Due within one year</u>
Long-term debt:				
2011 Wastewater Revenue				
Certificates of Participation	\$20,120,000	(\$855,000)	\$19,265,000	\$885,000
SRF Loan payable	74,366,047	(3,594,171)	70,771,876	3,680,431
	<u>\$94,486,047</u>	<u>(\$4,449,171)</u>	<u>\$90,036,876</u>	<u>\$4,565,431</u>

Changes in long-term debt amounts for 2013-2014 were as follows:

	<u>Balance June 30, 2013</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>	<u>Due within one year</u>
Long-term debt:				
2011 Wastewater Revenue				
Certificates of Participation	\$20,950,000	(\$830,000)	\$20,120,000	\$855,000
SRF Loan payable	77,875,980	(3,509,933)	74,366,047	3,594,171
	<u>\$98,825,980</u>	<u>(\$4,339,933)</u>	<u>\$94,486,047</u>	<u>\$4,449,171</u>

**NOVATO SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 For the Years Ended June 30, 2015 and 2014**

NOTE 6 – LONG-TERM DEBT (Continued)

B. 2011 Wastewater Revenue Certificates of Participation

The District issued \$21,750,000 in Wastewater Revenue Certificates of Participation on September 27, 2011 to finance the construction of wastewater system improvements and pay issuance costs. The Certificates are payable from net revenues of the District and bear interest rates of 3.00%-4.75%. Interest payments are due February 1 and August 1 of each year, commencing on February 1, 2012. Principal payments are due February 1 of each year commencing February 1, 2013 through 2032.

The following table summarizes the debt service maturity of the District for the 2011 Certificates of Participation:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$885,000	\$811,148	\$1,696,148
2017	905,000	775,748	1,680,748
2018	925,000	739,548	1,664,548
2019	945,000	702,548	1,647,548
2020	970,000	664,548	1,634,548
2021-2025	5,350,000	2,716,140	8,066,140
2026-2030	6,445,000	1,542,346	7,987,346
2031-2032	2,840,000	199,960	3,039,960
Total	<u>\$19,265,000</u>	<u>\$8,151,986</u>	<u>\$27,416,986</u>

C. Loan Payable - State Water Resources Control Board Loan

In fiscal year 2008, the District was granted a loan for \$81,329,083 from the California State Water Resources Control Board under the State Revolving Fund (SRF) loan program to upgrade and expand the Novato Treatment Plant to treat the combined flow of the District's wastewater treatment plants. The funds received are Federal funding provided to the State of California under the Federal Clean Water Act.

The District constructed the Ignacio Transfer Pump Station at the site of the Ignacio Treatment Plant along with the Ignacio Conveyance Force Main to convey flow from the Ignacio Transfer Pump Station to the Novato Treatment Plant.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 6 – LONG-TERM DEBT (Continued)

As of June 30, 2015, the District has received \$81,328,983 from the SRF loan program. Interest accrues on the obligation at a rate of 2.40% compounded annually. The first debt service payment was paid on December 31, 2011 and each December 31st thereafter through fiscal year 2031. The following table summarizes the debt service maturity of the District for this loan as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$3,680,431	\$1,698,525	\$5,378,956
2017	3,768,762	1,610,195	5,378,957
2018	3,859,212	1,519,744	5,378,956
2019	3,951,833	1,427,123	5,378,956
2020	4,046,677	1,332,279	5,378,956
2021-2025	21,737,653	5,157,128	26,894,781
2026-2030	24,474,421	2,420,359	26,894,780
2031	5,252,887	126,069	5,378,956
Total	<u>\$70,771,876</u>	<u>\$15,291,422</u>	<u>\$86,063,298</u>

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE

The District follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). Required disclosures are presented below.

A. Plan Description – Eligibility

The District pays a portion of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the District.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Active plan members	14	14	19
Retirees and beneficiaries receiving benefits	20	22	23
Total plan membership	<u>34</u>	<u>36</u>	<u>42</u>

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

B. *Single-Employer Plan - Description of Benefits*

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Spouses, surviving spouses and eligible dependents are also eligible to receive benefits. Retirees may enroll in any plan available through the District's CalPERS medical plan. The contribution requirements of Plan members and the District were adopted by the Board of Directors in July 2008 as follows:

The District contributes toward post-retirement benefits for employees who retire after age 50 with at least 5 years of service. For those employed prior to July 1, 2008, who retire after age 55 with at least 10 years of service, the District will pay the full monthly premiums for medical coverage for the retired employee, but not more than the Kaiser Northern California amount. If the retiree is at least age 60 with at least 15 years of service, the premium for the employee's eligible spouse is paid. Coverage is for the lives of the retired employee and spouse. Medical coverage is provided under any plans offered by CalPERS.

For all other employees, hired on or after July 1, 2008, who retire after age 50 with at least 5 years of service, the District will pay the minimum CalPERS medical benefit. In 2015 and 2014, respectively, this minimum amount was \$122 and \$119 per month. This benefit is paid for as long as the retiree or spouse is living, provided he/she is covered under the CalPERS medical plans.

C. *Funding Policy*

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 15.141% of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan for those employees employed prior to July, 1, 2008 and meet the required service years. The District will pay the minimum CalPERS medical benefit for all other employees who do not meet the previously noted service requirements. The District funds the plan on a pay-as-you-go basis and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

D. Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a July 1, 2012 actuarial valuation using the entry age normal cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4.0% investment rate of return, (b) 0.0% projected annual salary increase, (c) 4.0% inflation rate and (d) health care cost trend rates from 5.0% to 7.0% for medical benefits. Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation as well as the historical pattern of sharing benefit costs between the employer and plan members. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least tri-ennially as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year level dollar amortization period on a closed basis.

E. Funding Progress and Funded Status

The District's Net OPEB Obligation (NOO) is recorded in the Statement of Net Position and is calculated as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$425,357	\$413,773	\$402,145
Interest on net OPEB obligation	43,361	36,772	29,803
Adjustment to annual required contribution	<u>(69,391)</u>	<u>(57,519)</u>	<u>(45,628)</u>
Total annual OPEB expense	399,327	393,026	386,320
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(226,567)</u>	<u>(228,301)</u>	<u>(212,088)</u>
Total change in net OPEB obligation	172,760	164,725	174,232
OPEB obligation - beginning of year	<u>1,084,036</u>	<u>919,311</u>	<u>745,079</u>
OPEB obligation - end of year	<u><u>\$1,256,796</u></u>	<u><u>\$1,084,036</u></u>	<u><u>\$919,311</u></u>

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2015 amounted to \$5,347,276 per the actuarial study dated July 1, 2012.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PAYABLE (Continued)

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, is set forth below:

<i>Three-Year History of Net OPEB Obligation</i>				
Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2015	\$399,327	\$226,567	56.74%	\$1,256,796
2014	393,026	228,301	58.09%	1,084,036
2013	386,320	212,088	54.90%	919,311

The Schedule of Funding Progress below, and the required supplementary information immediately following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the last actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2012	\$0	\$5,347,276	\$5,347,276	0.00%	\$1,973,900	270.899%

NOTE 8 – NET POSITION

Calculation of net position as of June 30, were as follows:

	<u>2015</u>	<u>2014</u>
<i>Net investment in capital assets:</i>		
Capital assets - not being depreciated	\$11,514,846	\$10,159,610
Capital assets, net - being depreciated	171,401,522	174,053,804
SRF Loan Payable	(70,771,876)	(74,366,047)
Certificates of Participation	(19,265,000)	(20,120,000)
Unspent proceeds	1,693,343	4,804,012
Total net investment in capital assets	<u>94,572,835</u>	<u>94,531,379</u>
<i>Unrestricted net position:</i>		
Non-spendable net position:		
Prepaid expenses and deposits	52,296	55,178
Total non-spendable net position	<u>52,296</u>	<u>55,178</u>
Spendable net position:		
Undesignated net position reserve	10,974,274	11,997,550
Total spendable net position	<u>10,974,274</u>	<u>11,997,550</u>
Total unrestricted net position	<u>11,026,570</u>	<u>12,052,728</u>
Total net position	<u><u>\$105,599,405</u></u>	<u><u>\$106,584,107</u></u>

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 9 – DEFERRED COMPENSATION SAVINGS PLAN

The District's employees may participate in two 457 Deferred Compensation Programs (Programs). The Programs are available to all District employees and are entirely voluntary. The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in these Programs. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. The District makes no matching contributions to the Programs.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all Program assets held in trust by the District's two deferred compensation programs at June 30, 2015 and 2014 amounted to \$2,842,141 and \$2,628,385, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

The District also offers a 401(a) Plan (Plan) to management and confidential employees. The District contributes 2.5% of base salary for all qualified employees, with the exception of the General Manager-Chief Engineer. The District's contribution for the General Manager-Chief Engineer is equivalent to the maximum of a 457 plan's annual contribution. Employee contributions to this Plan are mandatory for qualified employees. Market value of all Plan assets held in trust by the District's 401(a) Plan at June 30, 2015 and 2014 amounted to \$657,237 and \$661,809, respectively.

NOTE 10 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions – The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA, 95814.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 10 – PENSION PLANS (Continued)

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>Miscellaneous Tier I</u>
	<u>Prior to January 1, 2012</u>
Hire date	
Benefit formula	2% @ 55
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	1.43% to 2.42%
Required employee contribution rates	7.00%
Required employer contribution rates	11.522%
	<u>Miscellaneous Tier II</u>
	<u>Between January 1, 2012</u>
	<u>through December 31, 2012</u>
Hire date	
Benefit formula	2% @ 60
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	1.09% to 2.42%
Required employee contribution rates	7.00%
Required employer contribution rates	8.005%
	<u>Miscellaneous Tier III</u>
	<u>On or after January 1, 2013</u>
Hire date	
Benefit formula	2% @ 62
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	50 - 67
Monthly benefits, as a % of eligible compensation	1.0% to 2.5%
Required employee contribution rates	6.25%
Required employer contribution rates	6.237%

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 10 – PENSION PLANS (Continued)

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous		
	Tier I	Tier II	Tier III
Contributions - employer	\$163,257	\$0	\$10,153
Contributions - employee (paid by employer)	35,410	0	0

B. *Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Tier I	\$3,332,844
Miscellaneous Tier II	2,082
Miscellaneous Tier III	970
Total Net Pension Liability	\$3,335,896

The District’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District’s proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous		
	Tier I	Tier II	Tier III
Proportion - June 30, 2013	0.14000%	0.00009%	0.00004%
Proportion - June 30, 2014	0.14000%	0.00008%	0.00004%
Change - Increase (Decrease)	0.00000%	-0.00001%	0.00000%

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 10 – PENSION PLANS (Continued)

For the year ended June 30, 2015, the District recognized pension expense of (\$343,533). At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$208,489	
Differences between actual and expected experience		
Changes in assumptions		
Net differences between projected and actual earnings on plan investments		(\$896,812)
Adjustments due to differences in proportion	<u>77,412</u>	<u>(8,788)</u>
Total	<u>\$285,901</u>	<u>(\$905,600)</u>

The \$208,489 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	
<u>June 30</u>	
2015	(\$42,572)
2016	(249,619)
2017	(255,744)
2018	(280,253)

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous Tier I, II, and III</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 10 – PENSION PLANS (Continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 10 – PENSION PLANS (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous		
	Tier I	Tier II	Tier III
1% Decrease	6.50%	6.50%	6.50%
Net Pension Liability	\$5,938,097	\$3,709	\$1,728
Current Discount Rate	7.50%	7.50%	7.50%
Net Pension Liability	\$3,332,844	\$2,082	\$970
1% Increase	8.50%	8.50%	8.50%
Net Pension Liability	\$1,170,731	\$732	\$341

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the California Sanitation Risk Management Authority (CSRMA), an intergovernmental risk sharing joint powers authority currently operating as a common risk management and loss prevention program for sixty California sanitation districts. The District pays an annual premium to CSRMA for its public liability and workers compensation risk coverage. The Agreement for formation of the CSRMA provides that CSRMA will be self-sustaining through member premiums and will provide specific excess insurance through commercial companies. The CSRMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process. At June 30, 2015, the District participated in the self insurance programs of the CSRMA as follows:

- General and automotive liability, including errors and omissions and employment practices liability (EPL): The District is self-insured through the CSRMA up to \$15,000,000 with a \$25,000 deductible (\$25,000 for EPL, \$25,000 for sewer backup, and \$2,500 for E&O) per occurrence. Excess liability insurance is purchased above the \$15,000,000 self-insured layer to \$25,000,000 through CSRMA.
- Workers' compensation and employer's liability: The District is self-insured through the CSRMA up to \$750,000 with a deductible of \$0 per claim. The District purchased through CSRMA, additional excess workers' compensation coverage and excess employer's liability coverage of \$1,000,000.

In addition to the above, the District also has the following insurance coverage:

- Master crime policy coverage up to \$2,000,000 for all lines including \$1,000,000 for public employee dishonesty, forgery or alteration, computer fraud, coverage of up to \$100,000 for faithful performance and coverage up to \$10,000 for theft, with a deductible of \$10,000 per claim.
- Special form property coverage up to \$68,564,881 with a deductible of \$25,000 per claim. Included in this coverage are a public entity pollution liability policy for up to \$25,000,000 and a cyber liability policy for up to \$2,000,000.
- Public entity physical damage up to \$792,380 total value, with a \$2,000/\$5,000 deductible.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2015, 2014 and 2013. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2015, 2014 and 2013.

**NOVATO SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. *Local Improvement District Bonds*

Within the District's boundaries, there exists Assessment District No. 2001 (Novato Heights) which was formed for the sole purpose of financing sewer system improvements. The District is not liable for repayment of any bonds issued to finance these local improvements. The District acts as the agent for the property owners within the assessment district by collecting assessments, forwarding collections to bondholders, and initiating foreclosure procedures if appropriate. The outstanding balance on these bonds as of June 30, 2015 and 2014 was \$1,055,000 and \$1,155,000, respectively.

B. *Construction Contracts*

The District has a variety of agreements with developers and private parties relating to the installation, improvement or modification of transmission facilities and distribution systems within its service area. The financing of such improvements is provided primarily from advances for construction and the District's capital replacement reserve. The District has committed to approximately \$549,365 of open construction contracts as of June 30, 2015.

C. *Grant Awards*

Grant funds received by the District are subject to audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

D. *Litigation*

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Required Supplementary Information

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NOVATO SANITARY DISTRICT
 Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
 As of fiscal year ending June 30, 2015
 Last 10 Years*

**SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE
 NET PENSION LIABILITY AND RELATED RATIOS AS OF
 THE MEASUREMENT DATE**

	District Miscellaneous Plans		
	Tier I	Tier II	Tier III
	6/30/2014	6/30/2014	6/30/2014
Plan's proportion of the Net Pension Liability (Asset)	0.05356%	0.00003%	0.00002%
Plan's proportion share of the Net Pension Liability (Asset)	\$3,332,844	\$2,082	\$970
Plan's Covered Employee Payroll	1,682,255	96,504	103,602
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	198.12%	2.16%	0.94%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%	83.02%	83.02%
Plan's Proportionate Share of Aggregate Employer Contributions	440,923	275	128

*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

NOVATO SANITARY DISTRICT
Cost-Sharing Multiple Employer Defined Benefit Pension Plan
As of fiscal year ending June 30, 2015
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

	District Miscellaneous Plan		
	Tier I	Tier II	Tier III
	<u>2015</u>	<u>2015</u>	<u>2015</u>
Actuarially determined contribution	\$184,347	\$3,894	\$9,028
Contributions in relation to the actuarially determined contributions	(184,347)	(3,894)	(9,028)
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered-employee payroll	\$1,682,255	\$96,504	\$103,602
Contributions as a percentage of covered-employee payroll	10.96%	4.04%	8.71%

Notes to Schedule

Valuation date: 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	(1)
Investment rate of return	7.75% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Novato Sanitary District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
As of Fiscal Year Ending June 30, 2015

Funded Status and Funding Progress of the Plan

Required Supplemental Information - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2012	\$0	\$5,347,276	\$5,347,276	0.00%	\$1,973,900	270.899%
7/1/2010	0	6,112,283	6,112,283	0.00%	2,000,000	305.610%
7/1/2009	0	5,554,000	5,554,000	0.00%	2,350,000	236.340%

The most recent valuation (dated July 1, 2012) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$5,347,276. There are no plan assets because the District funds on a pay as-you-go basis. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2015 was estimated at \$1,529,895. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 349.52%

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2012
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	27 years as of the valuation date
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increase	0.00%
Inflation rate	4.00%
Health care cost trend rates	5.00% - 7.00%

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Statistical Information Section

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**Novato Sanitary District
Statistical Section**

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

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Financial Trends	48-50
These schedules contain information to help the reader understand how the District's Financial performance and well-being have changed over time.	
Revenue Capacity	51-56
These schedules contain information to help the reader assess the District's most significant own-source revenue, sewer service charges.	
Debt Capacity	57-58
These schedules present information to help the reader assess the affordability of the district's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
Demographic Information	59
This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Information	60-61
This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.	

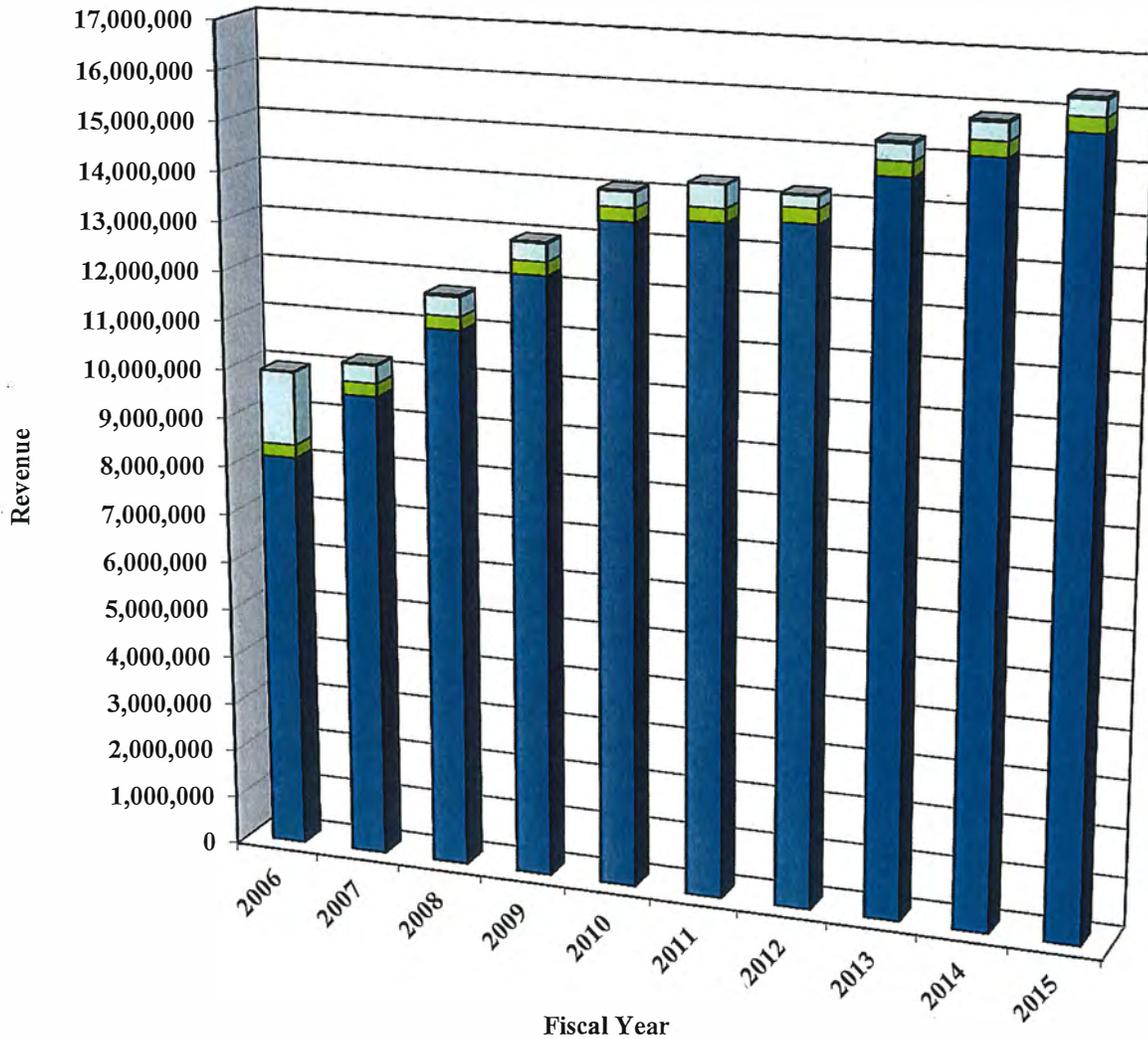
Novato Sanitary District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years
Schedule 1

	2006	2007	2008	2009	2010	2011	2012	Restated 2013	2014	2015
Changes in net position:										
Operating revenues (see Schedule 2)	\$ 9,937,511	10,226,728	11,768,650	12,948,148	14,071,716	14,316,441	14,225,286	15,341,529	15,849,099	16,372,320
Operating expenses (see Schedule 3)	(5,848,165)	(6,919,638)	(7,464,243)	(7,685,390)	(9,654,452)	(8,464,043)	(9,766,764)	(8,103,790)	(8,322,651)	(7,894,306)
Depreciation and amortization	(912,921)	(967,449)	(1,326,027)	(2,227,627)	(2,288,892)	(2,306,550)	(3,238,715)	(4,602,353)	(5,092,355)	(5,201,451)
Operating income(loss)	3,176,425	2,339,641	2,978,380	3,035,131	2,128,372	3,545,848	1,219,807	2,635,386	2,434,093	3,276,563
Non-operating revenues(expenses)										
Property taxes	1,385,156	1,796,003	1,995,120	1,928,207	1,866,049	1,773,877	1,795,489	1,795,781	1,941,241	1,999,816
Interest	330,052	657,453	1,081,073	702,002	196,303	30,387	37,129	67,050	45,673	43,117
Interest expense	(20,687)	(383,161)	(1,305,067)	(1,302,270)	(1,211,880)	(209,456)	(2,669,346)	(2,712,097)	(2,678,227)	(2,567,765)
Special Equalization Charges	437	527	2,908	-	-	-	76	32	-	-
Franchise fees/Rental Income	122,517	127,517	127,517	127,517	45,000	95,000	26,099	113,416	127,708	142,597
Deferred Charges Amortization	-	-	-	(18,689)	(18,689)	(16,744)	(10,564)	-	-	-
Gain/(Loss) on sale/disposition of assets	(101,481)	(453,852)	(221,920)	(83,842)	(909,553)	(6,634,450)	(367,095)	2,529	(3,502,140)	13,364
Other revenue/(expense), net	(11,911)	-	-	(2,022)	(17,644)	42,623	229,306	(339,663)	(270,260)	(135,556)
Total non-operating revenues(expenses), net	1,704,083	1,744,487	1,679,631	1,350,903	(50,414)	(4,918,763)	(958,906)	(1,072,952)	(4,336,005)	(504,427)
Net income before capital contributions	4,880,508	4,084,128	4,658,011	4,386,034	2,077,958	(1,372,915)	260,901	1,562,434	(1,901,912)	2,772,136
Connection Fees	511,830	2,325,277	316,609	647,101	1,277,790	174,631	880,541	146,949	343,773	291,565
Capital contributions	3,342,124	333,885	338,915	395,702	446,867	101,818	5,732	-	202,530	250,725
Capital Grant	-	-	-	-	-	221,689	1,433,561	-	16,250	-
Prior Year restatement (GASB 65)	-	-	-	-	-	-	(64,004)	-	-	-
Changes in net position	\$ 8,734,462	6,743,290	5,313,535	5,428,837	3,802,615	(874,777)	2,516,731	1,709,383	(1,339,359)	3,314,426
Net position by component:										
Prior Year adjustment	-	-	-	-	-	-	(64,004)	(6,774,168)	-	(4,299,128)
Invested in capital assets, net of related debt	\$ 95,265,483	77,039,741	83,754,794	79,067,990	102,065,015	106,497,126	105,262,788	104,411,068	94,531,379	94,572,835
Unrestricted	6,053,460	31,022,492	29,620,974	28,475,692	9,281,282	3,974,394	7,789,467	10,286,566	12,052,728	15,325,698
Total net position	\$ 101,318,943	108,062,233	113,375,768	107,543,682	111,346,297	110,471,520	112,988,251	107,923,466	106,584,107	105,599,405

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Operating Revenue By Source
Last Ten Fiscal Years
Schedule 2**

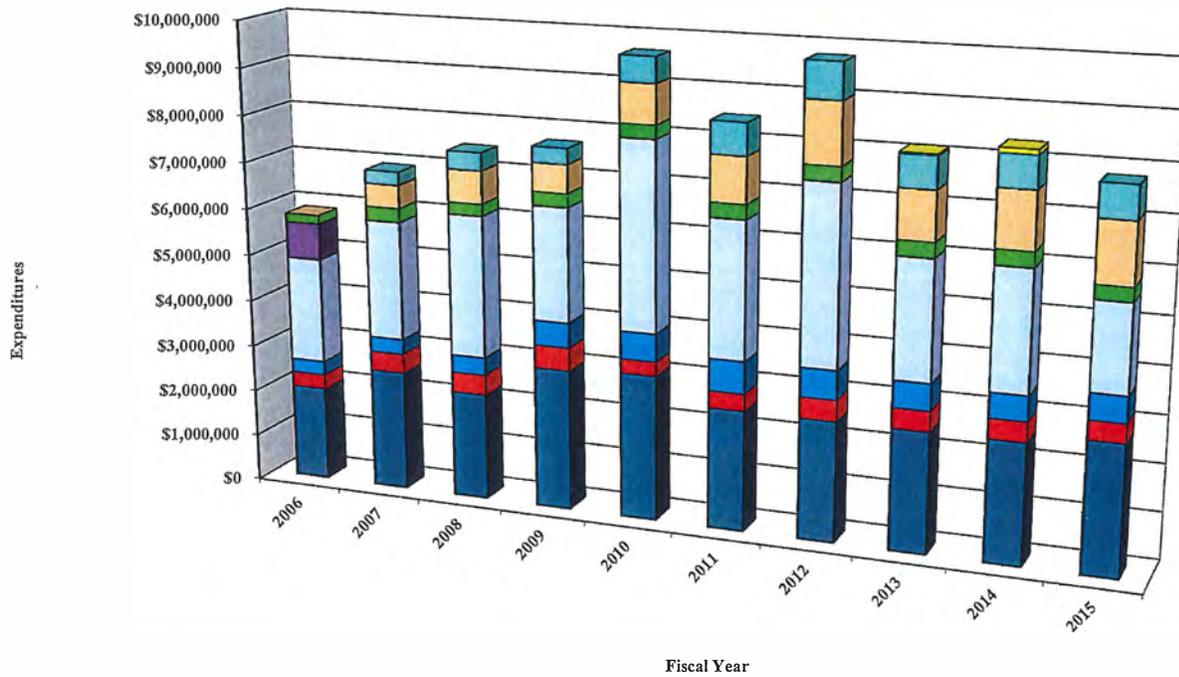
Fiscal Year	Wastewater Service Charges	Permits, Inspections and Other Fees	AB 939 Solid Waste Program	Other Operating Revenue	Total Operating Revenue
2006	\$ 8,161,755	15,146	264,378	1,496,232	9,937,511
2007	9,573,338	20,063	271,378	361,949	10,226,728
2008	11,063,829	39,291	271,862	393,668	11,768,650
2009	12,286,426	27,408	271,862	362,452	12,948,148
2010	13,462,437	23,163	277,299	308,817	14,071,716
2011	13,570,839	9,532	280,493	455,577	14,316,441
2012	13,671,131	21,441	297,586	235,128	14,225,286
2013	14,670,826	34,505	297,586	338,612	15,341,529
2014	15,157,903	39,023	297,586	354,587	15,849,099
2015	15,706,704	44,494	297,586	323,536	16,372,320



Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Operating Expenses by Activity
Last Ten Fiscal Years
Schedule 3**

Fiscal Year	Collection System	Wastewater Treatment	Wastewater Reclamation/Disposal	Laboratory & Monitoring	Pump Stations	Sewer and Pump Stations	Recycled Water Facility	AB939 Solid Waste Programs	Administration & Engineering	Total Operating Expenses
2006	\$	2,020,955	307,605	303,287		784,996		181,886	2,249,436	5,848,165
2007	493,029	2,569,632	411,564	331,627	280,028			297,396	2,536,362	6,919,638
2008	694,147	2,289,718	426,492	389,036	383,503			249,797	3,031,550	7,464,243
2009	599,787	3,017,245	486,514	537,069	332,808			286,682	2,425,285	7,685,390
2010	828,832	3,102,119	296,268	597,743	540,641			284,999	4,003,850	9,654,452
2011	963,487	2,566,139	355,218	688,238	673,344			307,137	2,910,480	8,464,043
2012	1,283,228	2,560,633	442,266	621,758	758,564			310,890	3,789,425	9,766,764
2013	1,022,006	2,561,301	423,670	572,718	668,427		31,301	318,616	2,505,751	8,103,790
2014	1,188,408	2,562,314	418,748	534,959	668,841		104,837	320,938	2,523,606	8,322,651
2015	1,277,022	2,757,514	398,118	555,215	686,789		100,354	289,586	1,829,708	7,894,306



Notes:

Beginning in 2007, Collection and Pump Stations were separate departments previously classified under the Sewer and Pump Stations department.
Beginning in 2012, the Recycled Water Facility began operations.

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Assessed Value of Taxable Property
Last Ten Years
Schedule 4**

Fiscal Year	Assessed Value	Percent Change
2006	\$ 8,838,973,455	
2007	9,491,627,231	7.38%
2008	9,829,812,081	3.56%
2009	9,580,325,664	-2.54%
2010	9,432,410,765	-1.54%
2011	9,349,746,271	-0.88%
2012	9,248,463,186	-1.95%
2013	9,618,666,723	2.88%
2014	10,091,742,535	7.94%
2015	10,706,994,564	15.77%

Source: County of Marin Tax Assessor

**Novato Sanitary District
Property Tax Levies and Collections
Last Ten Fiscal Years
Schedule 5**

Year	Total	Tax Levy		Tax Collections			Current Year % Collected
		Prior Year	Current Year	Total	Prior Year	Current Year	
2006	\$ 1,437,714	1,096	1,436,617	1,437,713	1,096	1,436,617	99.92%
2007	1,762,233	1,745	1,760,488	1,762,233	1,745	1,760,488	99.90%
2008	2,002,026	2,202	1,999,824	2,002,026	2,202	1,999,824	99.89%
2009	1,928,207	1,701	1,926,506	1,928,207	1,701	1,926,506	99.91%
2010	1,725,949	1,752	1,724,197	1,725,949	1,752	1,724,197	99.90%
2011	1,773,877	2,696	1,771,181	1,773,877	2,696	1,771,181	99.85%
2012	1,795,167	2,066	1,793,101	1,795,167	2,066	1,793,101	99.88%
2013	1,795,782	1,562	1,794,220	1,795,765	1,545	1,794,220	99.91%
2014	1,941,094	1,321	1,939,773	1,941,094	1,321	1,939,773	99.93%
2015	1,999,816	2,696	1,997,120	1,999,816	2,696	1,997,120	99.87%

Source: Novato Sanitary District

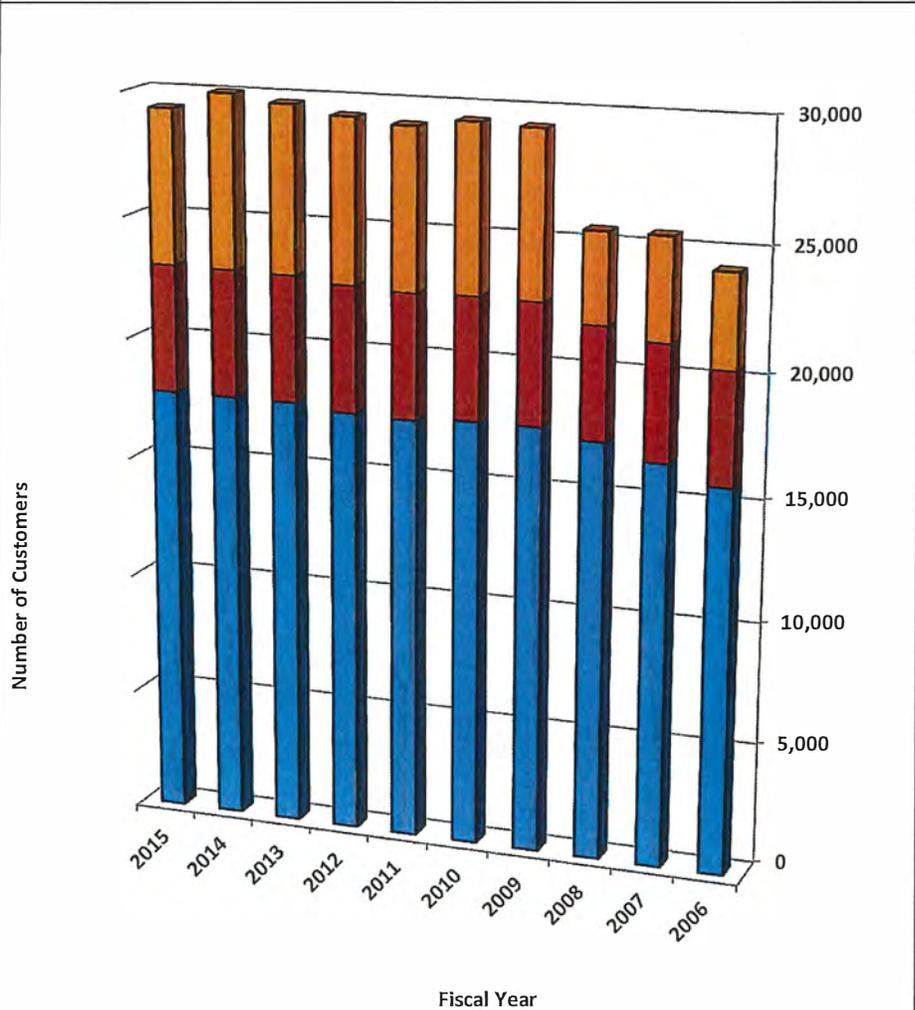
**Novato Sanitary District
Property Tax Levies and Collections
Last Ten Fiscal Years
Schedule 6**

Fiscal Year	Current Tax Levy	Current Tax Collections	Percent of Current Taxes	Prior Year Tax Collections,	Percent of Current Taxes	Net Collections
2006	\$ 1,436,617	1,436,617	100.0%	1,096	0.1%	1,437,713
2007	1,760,488	1,760,488	100.0%	1,745	0.1%	1,762,233
2008	1,999,824	1,999,824	100.0%	2,202	0.1%	2,002,026
2009	1,926,506	1,926,506	100.0%	1,701	0.1%	1,928,207
2010	1,724,197	1,724,197	100.0%	1,752	0.1%	1,725,949
2011	1,773,877	1,771,181	99.8%	2,696	0.2%	1,773,877
2012	1,793,101	1,793,101	100.0%	2,066	0.1%	1,795,167
2013	1,794,220	1,794,220	100.0%	1,562	0.1%	1,795,782
2014	1,939,773	1,939,773	100.0%	1,321	0.1%	1,941,094
2015	1,997,120	1,997,120	100.0%	2,696	0.1%	1,999,816

Source: Novato Sanitary District Accounting Department

Novato Sanitary District
Equivalent Dwelling Units by Customer Type at Fiscal Year-End⁽¹⁾
Last Ten Fiscal Years⁽²⁾
Schedule 7

Fiscal Year	Single Family Residential	Multi family Residential (3)	Commercial	Total
2006	15,816.80	4,598.60	3,820.10	24,235.50
2007	16,559.00	4,735.60	4,165.15	25,459.75
2008	17,193.00	4,608.20	3,681.99	25,483.19
2009	17,572.20	4,969.60	6,745.96	29,287.76
2010	17,568.60	5,016.80	6,811.97	29,397.37
2011	17,407.40	5,130.40	6,576.55	29,114.35
2012	17,474.40	5,182.60	6,677.08	29,334.08
2013	17,705.80	5,184.20	6,814.04	29,704.04
2014	17,717.00	5,220.20	7,101.90	30,039.10
2015	17,741.20	5,234.20	6,312.95	29,288.35



Notes:

- (1) The District charges its customers sewer service charges (SSC) on a per equivalent dwelling unit (EDU) basis, and the charges appear on the customers' annual property tax bills.
- (2) Number of customers as of June 30 of fiscal year.
- (3) Multi family residential includes apartments and condominiums.

Source: Novato Sanitary District Operations Department

**Novato Sanitary District
Wastewater Service Charges
Last Ten Fiscal Years
Schedule 8**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Price per EDU per year	\$ 342	\$ 382	\$ 422	\$ 462	\$ 462	\$ 462	\$ 462	\$ 493	\$ 512	\$ 531
Price per EDU per month	\$ 28.50	\$ 31.83	\$ 35.17	\$ 38.50	\$ 38.50	\$ 38.50	\$ 38.50	\$ 41.08	\$ 42.67	\$ 44.25

EDUs

EDU Factors

Single Family	1
Apartments, Condominiums, Duplexes and Townhou	1 per living unit
Motor Home or Trailer Park	1 per space
Guest House with kitchen and bedroom	1 per living unit
Guest House without kitchen	0 per living unit

Non Residential

*Charge per HCF
water use*

Base Charge/ Unspecified	\$ 0.22	\$ 2.89
Auditoriums theaters	0.22	2.89
Auto service stations	0.22	2.89
Churches	0.22	2.89
Gymnasium w/ showers	0.22	2.89
Office	0.22	2.89
Public office	0.22	2.89
Retail	0.22	2.89
School classrooms/administration	0.22	2.89
Meeting halls with kitchens	0.22	4.05
Mortuary	0.22	6.29
Supermarkets	0.29	6.29
Dental offices	0.29	2.89
Hospitals	0.29	2.89
Medical offices	0.29	2.89
Veterinary offices	0.29	2.89
Bakeries	0.44	6.29
Cafeteria/dining area	0.44	6.29
Delicatessens	0.44	6.29
Ice Cream/yogurt shops	0.44	6.29
Restaurants cafes	0.44	6.29
Laundry and Laundromats	0.65	4.05
Warehouse or Storage not live/work	-00	0.00

Notes:

Rates as of July 1 of each year

Source: Novato Sanitary District Engineering Department

**Novato Sanitary District
Principal Customers
Current Fiscal Year and Ten Years Ago
Schedule 9**

Customer	2015		2006	
	EDU's	Percentage of Total	EDU's	Percentage of Total
Novato Unified School District	393.35	1.34%	149.78	0.61%
Fireman's Fund	381.05	1.30%	118.30	0.48%
BioMarin Pharmaceutical	304.69	1.04%	113.86	0.46%
Vintage Oaks Shopping Center (not including Costco or Target	274.79	0.94%	287.71	1.16%
Hamilton Hangars (3-10)	167.62	0.57%	62.95	0.25%
Nave Bros	157.36	0.54%	168.78	0.68%
City Of Novato	136.68	0.47%	36.02	0.15%
Condiotti Enterprises Inc.	117.21	0.40%	1.00	0.00%
Novato Fair Shopping Center	111.48	0.38%	87.37	0.35%
Hamilton Marketplace	106.94	0.37%	-	0.00%
Total EDUs: Principal customers	2,151.17	7.35%	1,025.77	4.14%
Total Equivalent Dwelling Units (EDUs)	29,288.35	100.00%	24,738.75	100.00%

Source: Novato Sanitary District Engineering Department

**Novato Sanitary District
Debt Coverage
Last Ten Fiscal Years
Schedule 10**

Fiscal Year	Net Revenues	Operating Expenses ^{(1),(3)}	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
2006	\$ 12,174,111	(5,848,165)	6,325,946	300,000	20,687	320,687	19.73
2007	14,679,653	(6,919,638)	7,760,015	325,000	383,161	708,161	10.96
2008	15,069,957	(7,464,243)	7,605,714	-	1,305,067	1,305,067	5.83
2009	16,248,422	(7,685,390)	8,563,032	-	1,302,270	1,302,270	6.58
2010	16,510,972	(9,654,452)	6,856,520	24,773,024	1,211,880	25,984,904	0.264
2011	10,003,454	(8,464,043)	1,539,411	5,233,207	209,456	5,442,663	0.283
2012	18,185,824	(9,766,764)	8,419,060	21,136	2,669,346	2,690,482	3.129
2013	17,127,623	(8,103,790)	9,023,833	4,231,967	2,712,097	6,944,064	1.300
2014	14,753,874	(8,322,651)	6,431,223	4,339,933	2,678,227	7,018,160	0.916
2014 (2)	18,256,014	(8,322,651)	9,933,363	4,339,933	2,678,227	7,018,160	1.415
2015	18,977,948	(7,894,306)	11,083,642	4,449,171	2,567,765	7,016,936	1.580

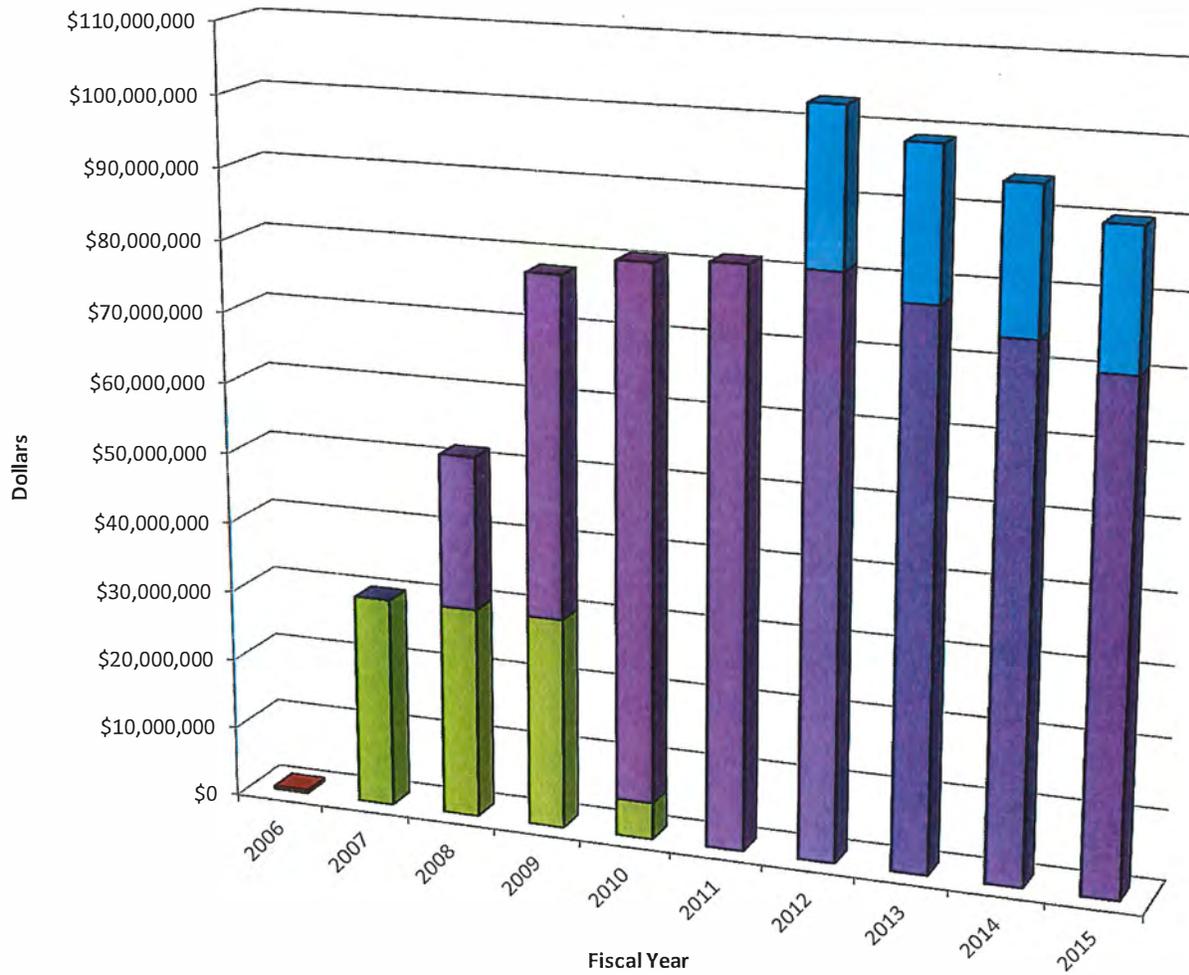
Notes:

- (1) Operating expenses exclude depreciation expense.
- (2) Net revenues calculated without the non-cash adjustment for the capital asset disposal/write down of \$3.5M in FY2014.
- (3) Information in this table is based on GAAP(Generally Accepted Accounting Principles) which is accrual basis accounting. Therefore, debt coverage ratios in this table will be different than those in the District's annual budget documents, which use cash basis accounting.

Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
Schedule 11**

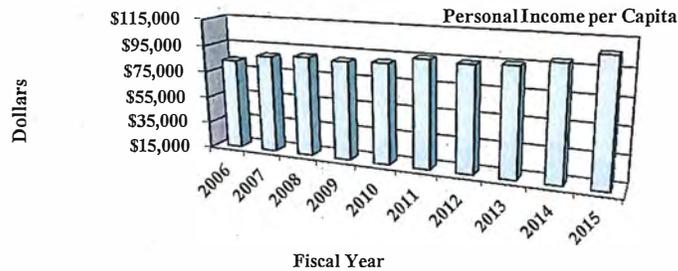
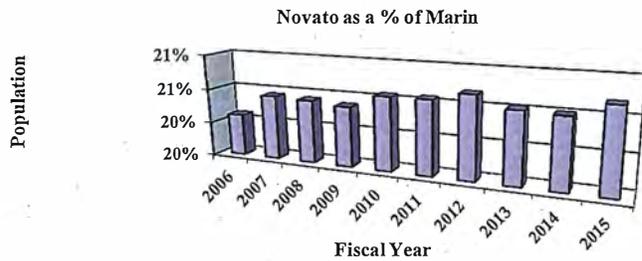
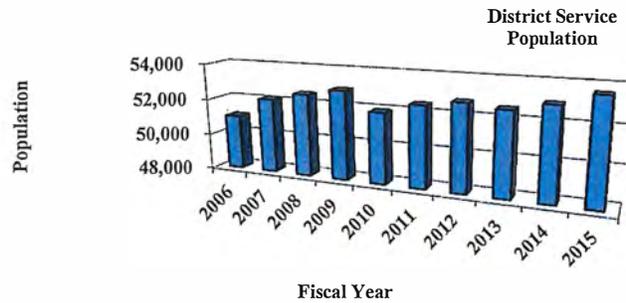
Fiscal Year	General Obligation Bonds Payable	Credit Line	SRF Loan Payable	Certificates of Participation Bond Payable	Total		
					Debt	Per Capita	As a Share of Personal Income
2006	\$ 325,000	191,500	-	-	516,500	10.12	0.01%
2007	-	30,006,231	-	-	30,006,231	575.66	0.65%
2008	-	30,006,231	21,691,826	-	51,698,057	983.75	1.09%
2009	-	30,006,231	47,989,587	-	77,995,818	1,473.82	1.65%
2010	-	5,233,207	75,348,207	-	80,581,414	1,552.51	1.72%
2011	-	-	81,329,083	-	81,329,083	1,550.42	1.63%
2012	-	-	81,307,947	21,750,000	103,057,947	1,964.66	2.09%
2013	-	-	77,878,980	20,950,000	98,828,980	1,873.54	1.97%
2014	-	-	74,366,047	20,120,000	94,486,047	1,783.87	1.80%
2015	-	-	70,771,876	19,265,000	90,036,876	1,680.58	1.58%



Source: Novato Sanitary District Accounting Department

**Novato Sanitary District
Demographics and Economic Statistics
Last Ten Calendar Years
Schedule 12**

County of Marin ⁽²⁾						
Year	(1) District Service Population	Novato as a % of Marin	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2006	51,037	20%	4.6%	253,818	21,184,396	83,463
2007	52,125	20%	4.4%	255,080	22,600,000	88,600
2008	52,552	20%	5.5%	257,406	23,200,000	90,130
2009	52,921	20%	9.4%	259,772	23,156,000	89,140
2010	51,904	21%	9.8%	252,409	22,800,000	90,330
2011	52,456	21%	9.5%	255,015	24,300,000	95,289
2012	52,750	21%	7.9%	255,031	23,920,000	93,793
2013	52,554	21%	6.0%	256,069	24,382,800	95,220
2014	52,967	21%	4.8%	258,365	25,645,300	99,260
2015	53,575	21%	3.9%	258,972	27,587,500	106,527



Notes:

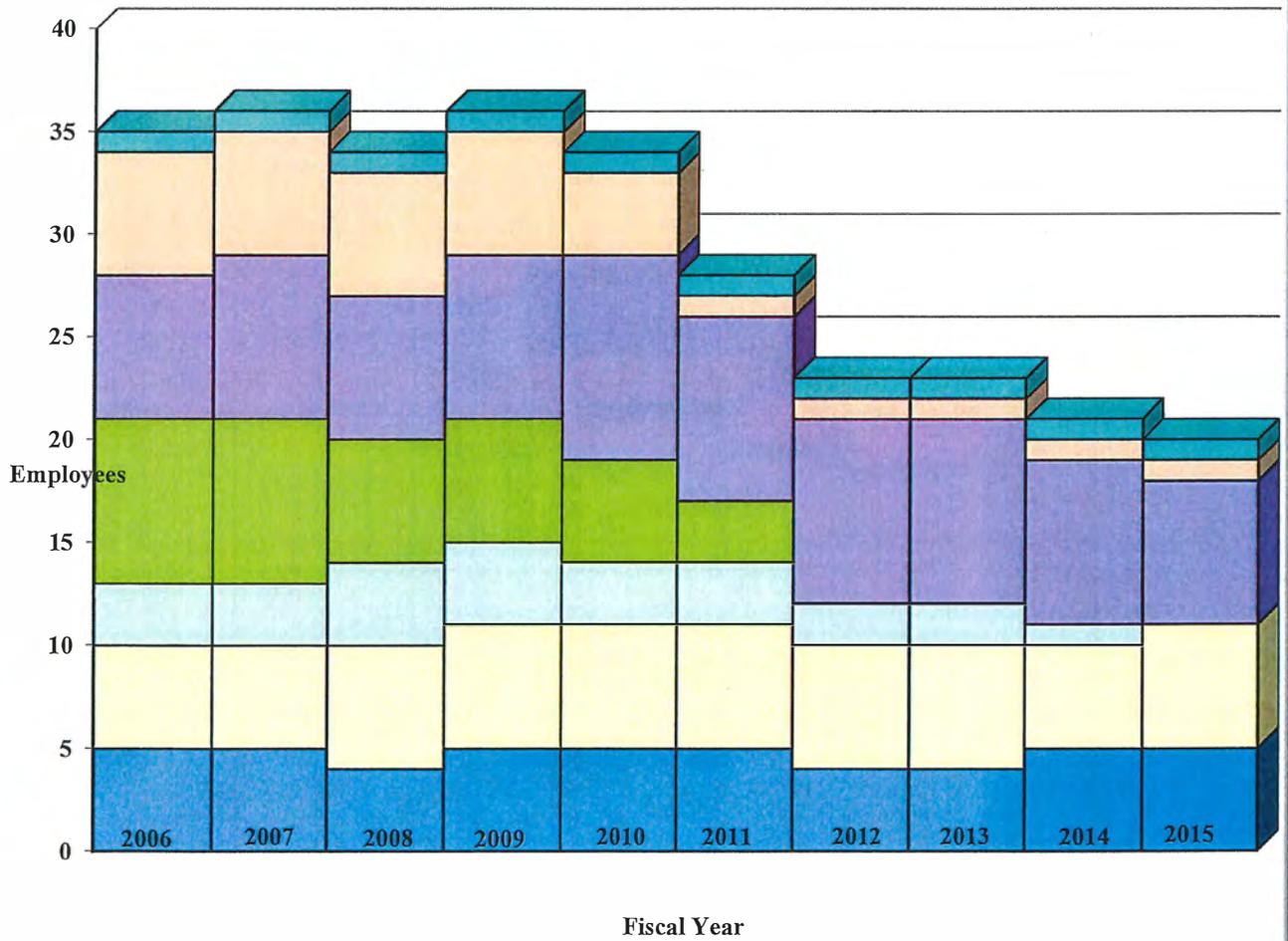
(1) Approximate population of Novato Sanitary District service area.

(2) Only County data is updated annually. Therefore, the District has chosen to use its data since the District believes that the County data is representative of the conditions and experience of the District.

Sources: California Department of Finance, County of Marin, quickfacts.census.gov, North Marin Water District, Google Public Data, Real Estate Center demographics.

**Novato Sanitary District
Operating and Capacity Indicators
Last Ten Fiscal Years
Schedule 13**

Employees										
Department	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Administration	5	5	4	5	5	5	4	4	5	5
Engineering	5	5	6	6	6	6	6	6	5	6
Lab Services	3	3	4	4	3	3	2	2	1	0
Operations	8	8	6	6	5	3	0	0	0	0
Collections	7	8	7	8	10	9	9	9	8	7
Maintenance	6	6	6	6	4	1	1	1	1	1
Safety	1	1	1	1	1	1	1	1	1	1
Total	35	36	34	36	34	28	23	23	21	20



Notes:

The decrease in operations staff (from 2010-2012) occurred with the transition of Treatment Plant Operations to Veolia Water. The Safety resource is a Central Marin Sanitation Agency (CMSA) employee and is a shared service position with CMSA.

Source: Novato Sanitary District Records

**Novato Sanitary District
Other Operating and Capacity Indicators
Last Ten Fiscal Years
Schedule 14**

Fiscal Year	Miles of Sewer Lines	Number of Pump Stations	Treatment Capacity (MGD)		Total Annual Treatment (MG)		
			Novato	Ignacio			
2006	222	41	3.54	1.470	4.53	2.02	1,829
2007	225	42	3.47	1.340	4.53	2.02	1,756
2008 *	225	42	4.04	0.000	6.55	0	1,475
2009	225	42	4.89	0.000	6.55	0	1,785
2010	226	42	4.23	0.000	7.05	0	1,789
2011	226	42	4.20	0.000	7.05	0	2,069
2012	226	42	4.00	0.000	7.05	0	1,709
2013	264	42	3.88	0.000	7.05	0	1,788
2014	264	42	3.45	0.000	7.05	0	1,501
2015	264	42	3.33	0.000	7.05	0	1,628

Notes:

N/A - Data not available for these years

MG - Millions of Gallons

MGD - Millions of Gallons per Day

*In 2008, the Ignacio Treatment Plant was transitioned to a transfer pump station (Ignacio Transfer Pump Station), and all wastewater treatment capability was consolidated at the Novato Treatment Plant site.

Source: Novato Sanitary District Operations and Accounting Departments

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